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TREASURY FOR OCC (EILEEN SIEGEL) AND OASIA/ICB (VIMAL ATUKORALA)

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SUBJECT: GoA To Create An Austrian Development Bank

Summary

1. The Austrian Government has announced plans to establish an Austrian Development Bank (ADB) to support private sector projects in developing countries by providing export and financing guarantee cover. The ADB will be a subsidiary of the Kontrollbank, the Austrian equivalent of the ExIm Bank and OPIC. The GoA hopes the ADB will fill the gap between Austria's ODA and traditional export and financing cover provided by the Kontrollbank. The GoA recognizes that funds for the ADA will not count towards ODA, except in the case of a debt write-off. Reaction from Austria's NGO sector has been primarily negative, with many insisting that the funds to set-up and operate the ADB could be better spent on traditional ODA. End Summary.

GoA Plans for an Austrian Development Bank

2. Christoph Matznetter, the Ministry of Finance's State Secretary recently announced that the GoA plans to establish an Austrian Development Bank (ADB) to support private sector projects in developing countries. The GoA has already circulated a draft bill for expert opinion. Parliament will most likely pass the bill during the autumn session, as the Grand Coalition partners (SPO and OVP) fully support the project. The new bank should begin operations on January 1, 2008.

3. The GoA hopes that support for Austrian private sector projects in developing countries will reinforce Austria's development assistance goals and contribute to economic development, growth and employment in the countries. The ADB should also serve as a door opener for Austrian companies in developing countries. Austrian assistance for overseas development or export and financing cover now falls into two broad categories: traditional ODA (limited to approximately sixteen target countries) and projects eligible for export and financing guarantee cover from the Kontrollbank, the Austrian equivalent of the ExIm Bank and OPIC. The GoA believes the ADB will fill an important gap between ODA and export and financing guarantees, by providing cover for long-term financing of sustainable private sector investments in developing countries.

4. The draft law authorizes the Finance Minister, on behalf of the GoA, to assume liabilities in the form of guarantees for the ADB. In turn, the ADB will extend guarantees to companies for their projects, but not provide direct financing. Through its public mandate, the ADB will be able to assume higher risks than commercial banks. The ADB will focus its activities on small and medium-sized companies. Financing of investments will be market-oriented.

The Austrian Development Bank and Austria's ODA

¶5. Matznetter, who is also working on a reform of Austria's ODA, made clear that the funds for the ADB will not reduce funding for the Austrian Development Agency, the Foreign Ministry's operational arm for carrying out ODA. Matznetter also emphasized that the ADB's business will not count towards ODA, unless the ADB must write off projects in developing countries.

¶6. In 2006, Austria's ODA reached Euro 1.5 billion, of which Euro 753 million was debt relief and Euro 760 traditional ODA. According to Irene Freudenschuss-Reichl, Director General of the MFA's Development Corporation Department, the GoA will have to significantly increase its ODA in coming years to meet established EU goals and UN Millennium Development Goals, but this increase will be in addition to the new ADB.

Mixed Reaction From NGO Sector

¶7. Most of Austria's development NGOs have criticized the government's plans to create the ADB. Their umbrella organization and the influential Caritas NGO claim that the establishment of the ADB will waste funds, which could otherwise be spent to help Austria reach its self-proclaimed ODA spending targets. Opponents also maintain that the ADB's primary focus would be to subsidize foreign trade, rather than to increase ODA. The Austrian Red Cross welcomed the creation of the ADB, but demanded a clear delineation between development assistance and the promotion of foreign trade.

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